

## UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF INCURRED HEALTH CLAIMS  
(000 Omitted)

Grand Total

## Section A - Paid Health Claims

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior					
2. 2002	19,196				
3. 2003	91,479	1,577			
4. 2004	XXX	XXX			
5. 2005	XXX	XXX	XXX		
6. 2006	XXX	XXX	XXX	XXX	

## Section B - Incurred Health Claims

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior					
2. 2002	200,940	18,077			
3. 2003	XXX	93,674			
4. 2004	XXX	XXX	1,077		
5. 2005	XXX	XXX	XXX		
6. 2006	XXX	XXX	XXX	XXX	

## Section C - Incurred Year Health Claims and Claims Adjustment Expense Ratio

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 (Col. 3 / 2) Percent	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 (Col. 5 / 1) Percent	7 Claims Unpaid	8 Unpaid Claims Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 (Col. 9 / 1) Percent
1. 2002	102,112	185,296	11,644		6,284	192,867	2,195		199,135	195,016
2. 2003	524		11,140		11,140	2,125,954	1,119		12,259	2,339,504
3. 2004	108						(1,076)		(1,076)	(996,296)
4. 2005										
5. 2006	2									

# UNDERWRITING AND INVESTMENT EXHIBIT

## PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9	10	11	12
	Total	Comprehensive (Hospital & Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other
1. Unearned premium reserves												
2. Additional policy reserves (a)												
3. Reserve for future contingent benefits												
4. Reserve for rate credits or experience rating refunds (including \$ 0 ) for investment income												
5. Aggregate write-ins for other policy reserves												
6. Totals (gross)												
7. Reinsurance ceded												
8. Total (Net) (Page 3, Line 4)												
9. Present value of amounts not yet due on claims												
10. Reserve for future contingent benefits												
11. Aggregate write-ins for other claim reserves												
12. Totals (gross)												
13. Reinsurance ceded												
14. Total (Net) (Page 3, Line 7)												

DETAILS OF WRITE-INS												
0501.												
0502.												
0503.												
0598. Summary of remaining write-ins for Line 5 from overflow page												
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)												
1101.												
1102.												
1103.												
1198. Summary of remaining write-ins for Line 11 from overflow page												
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)												
(a) includes \$ 0 . premium deficiency reserve.												

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

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3. Reserve for future contingent benefits												
4. Reserve for rate credits or experience rating refunds (including \$ 0. ) for investment income												
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7. Reinsurance ceded												
8. Total (Net) (Page 3, Line 4)												
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(a) Includes \$ 0. premium deficiency reserve.												

# **UNDERWRITING AND INVESTMENT EXHIBIT** **PART 3 - ANALYSIS OF EXPENSES**

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$ 0 for occupancy of own building)			475,777		475,777
2. Salaries, wages and other benefits	1,527,618	456,609	2,789,650		4,773,877
3. Commissions (less \$ 0 ceded plus \$ 0 assumed)					
4. Legal fees and expenses			31,817		31,817
5. Certifications and accreditation fees					
6. Auditing, actuarial and other consulting services	1,500		516,457		517,957
7. Traveling expenses	6,183		143,471		149,654
8. Marketing and advertising	22,989		39,669		62,658
9. Postage, express and telephone	83,048	40,408	129,093		252,549
10. Printing and office supplies	26,480	10,268	173,506		210,254
11. Occupancy, depreciation and amortization		(2,917)	(15,310)		(18,227)
12. Equipment					
13. Cost or depreciation of EDP equipment and software					
14. Outsourced services including EDP, claims, and other services		4,735,038	57,079		4,792,117
15. Boards, bureaus and association fees			66,584		66,584
16. Insurance, except on real estate			152,998		152,998
17. Collection and bank service charges			7,271		7,271
18. Group service and administration fees					
19. Reimbursements by uninsured plans	(2,015,000)	(5,283,769)	(8,810,525)		(16,109,294)
20. Reimbursements from fiscal intermediaries					
21. Real estate expenses					
22. Real estate taxes					
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes					
23.2 State premium taxes					
23.3 Regulatory authority licenses and fees					
23.4 Payroll taxes	109,108	32,305	181,119		322,532
23.5 Other (excluding federal income and real estate taxes)			20,133		20,133
24. Investment expenses not included elsewhere					
25. Aggregate write-ins for expenses	238,074	12,058	568,579		818,711
26. Total expenses incurred (Lines 1 to 25)			(3,472,632)	(a)	(3,472,632)
27. Less expenses unpaid December 31, current year					
28. Add expenses unpaid December 31, prior year					
29. Amounts receivable relating to uninsured plans, prior year					
30. Amounts receivable relating to uninsured plans, current year					
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)			(3,472,632)		(3,472,632)

DETAILS OF WRITE-INS					
2501. Bad Debt Expense			274,892		274,892
2502. Payroll Services			10,003		10,003
2503. Consumables	60	12,058	63,247		75,365
2598. Summary of remaining write-ins for Line 25 from overflow page	238,014		220,437		458,451
2599. Totals (Lines 2501 through 2503 + 2598) (Line 25 above)	238,074	12,058	568,579		818,711

(a) Includes management fees of \$ 14,181,486 to affiliates and \$ 0 to non-affiliates.

## EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. Government bonds	(a) 212,365	308,107
1.1 Bonds exempt from U.S. tax	(a)	
1.2 Other bonds (unaffiliated)	(a)	
1.3 Bonds of affiliates	(a)	
2.1 Preferred stocks (unaffiliated)	(b)	
2.11 Preferred stocks of affiliates	(b)	
2.2 Common stocks (unaffiliated)		
2.21 Common stocks of affiliates		
3. Mortgage loans	(c)	
4. Real estate	(d)	
5. Contract loans		
6. Cash, cash equivalents and short-term investments	(e)	23,067
7. Derivative instruments	(f)	
8. Other invested assets	67,242	236,220
9. Aggregate write-ins for investment income		70,633
10. Total gross investment income	279,607	638,027
11. Investment expenses		(g)
12. Investment taxes, licenses and fees, excluding federal income taxes		(g)
13. Interest expense		(h)
14. Depreciation on real estate and other invested assets		(i)
15. Aggregate write-ins for deductions from investment income		
16. Total deductions (Lines 11 through 15)		
17. Net investment income (Line 10 minus Line 16)		638,027
DETAILS OF WRITE-INS		
0901. Escrow per State of TN		70,633
0902.		
0903.		
0998. Summary of remaining write-ins for Line 9 from overflow page		
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)		70,633
1501.		
1502.		
1503.		
1598. Summary of remaining write-ins for Line 15 from overflow page		
1599. Totals (Lines 1501 through 1503) plus 1598 (Line 15, above)		

- (a) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.  
 (b) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued dividends on purchases.  
 (c) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.  
 (d) Includes \$ 0 for company's occupancy of its own buildings; and excludes \$ 0 interest on encumbrances.  
 (e) Includes \$ 0 accrual of discount less \$ 0 amortization of premium and less \$ 0 paid for accrued interest on purchases.  
 (f) Includes \$ 0 accrual of discount less \$ 0 amortization of premium.  
 (g) Includes \$ 0 investment expenses and \$ 0 investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.  
 (h) Includes \$ 0 interest on surplus notes and \$ 0 interest on capital notes.  
 (i) Includes \$ 0 depreciation on real estate and \$ 0 depreciation on other invested assets.

## EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Unrealized Increases (Decreases) by Adjustment	4 Total
1. U.S. Government bonds			39,896	39,896
1.1 Bonds exempt from U.S. tax				
1.2 Other bonds (unaffiliated)				
1.3 Bonds of affiliates				
2.1 Preferred stocks (unaffiliated)				
2.11 Preferred stocks of affiliates				
2.2 Common stocks (unaffiliated)				
2.21 Common stocks of affiliates				
3. Mortgage loans				
4. Real estate				
5. Contract loans				
6. Cash, cash equivalents and short-term investments				
7. Derivative instruments				
8. Other invested assets			8,703	8,703
9. Aggregate write-ins for capital gains (losses)				
10. Total capital gains (losses)			48,599	48,599

DETAILS OF WRITE-INS				
0901.				
0902.				
0903.				
0998. Summary of remaining write-ins for Line 9 from overflow page				
0999. Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)				

## EXHIBIT OF NONADMITTED ASSETS

	1	2	3
	Current Year Total Nonadmitted Assets	Prior Year Total Nonadmitted Assets	Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)			
2. Stocks (Schedule D):			
2.1 Preferred stocks			
2.2 Common stocks			
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens			
3.2 Other than first liens			
4. Real estate (Schedule A):			
4.1 Properties occupied by the company			
4.2 Properties held for the production of income			
4.3 Properties held for sale			
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)			
6. Contract loans			
7. Other invested assets (Schedule BA)			
8. Receivables for securities			
9. Aggregate write-ins for invested assets	2,300,000	2,300,000	
10. Subtotals, cash and invested assets (Lines 1 to 9)	2,300,000	2,300,000	
11. Title plants ( for Title insurers only )			
12. Investment income due and accrued			
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection			
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due			
13.3 Accrued retrospective premiums			
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers			
14.2 Funds held by or deposited with reinsured companies			
14.3 Other amounts receivable under reinsurance contracts			
15. Amounts receivable relating to uninsured plans			
16.1 Current federal and foreign income tax recoverable and interest thereon			
16.2 Net deferred tax asset			
17. Guaranty funds receivable or on deposit			
18. Electronic data processing equipment and software			
19. Furniture and equipment, including health care delivery assets			
20. Net adjustment in assets and liabilities due to foreign exchange rates			
21. Receivables from parent, subsidiaries and affiliates			
22. Health care and other amounts receivable	681,205		(681,205)
23. Aggregate write-ins for other than invested assets	81,520	356,412	274,892
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	3,062,725	2,656,412	(406,313)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			
26. Total (Lines 24 and 25)	3,062,725	2,656,412	(406,313)

DETAILS OF WRITE-INS			
0901. Escrow per State of TN	2,300,000	2,300,000	
0902.			
0903.			
0998. Summary of remaining write-ins for Line 09 from overflow page			
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 09 above)	2,300,000	2,300,000	
2301. Accrued TPL Revenue		274,892	274,892
2302. Prepaid Expenses	81,520	81,520	
2303.			
2398. Summary of remaining write-ins for Line 23 from overflow page			
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	81,520	356,412	274,892

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health Maintenance Organizations	122,260	117,524	115,851	112,981	110,534	1,418,559
2. Provider Service Organizations						
3. Preferred Provider Organizations						
4. Point of Service						
5. Indemnity Only						
6. Aggregate write-ins for other lines of business						
7. Total	122,260	117,524	115,851	112,981	110,534	1,418,559
DETAILS OF WRITE-INS						
0601.						
0602.						
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page						
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)						

NONE      Exhibit 2 - Accident and Health Premiums Due and Unpaid



## EXHIBIT 3 - HEALTH CARE RECEIVABLES

[illegible]

NONE Exhibit 4 - Claims Unpaid (Reported and Unreported)

NONE Exhibit 5 - Amounts Due from Parent, Subsidiaries and Affiliates

**EXHIBIT 6 - AMOUNTS DUE TO PARENT, SUBSIDIARIES AND AFFILIATES**

[illegible]

NONE	Exhibit 7 - Parts 1 and 2 Summary of Transactions
NONE	Exhibit 8 - Furniture, Equipment, and Supplies Owned

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## NOTES TO FINANCIAL STATEMENTS

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### 1. Summary of Significant Accounting Policies

#### A. Accounting Practices

The financial statements of UAHC Health Plan of Tennessee, Inc. ("UAHC-TN") are presented on the basis of accounting practices prescribed or permitted by the Tennessee Department of Commerce and Insurance.

The Tennessee Department of Commerce and Insurance recognizes only statutory accounting practices prescribed or permitted by the state of Tennessee for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Tennessee Insurance Law. The National Association of Insurance Commissioners' (NAIC) Accounting Practices and Procedures manual, (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the state of Tennessee.

There are no reconciling items between the Company's net income and capital and surplus between NAIC SAP practices prescribed and permitted by the state of Tennessee.

#### B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with Statutory Accounting Principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

#### C. Accounting Policy

TennCare capitation revenues are recognized as health insurance coverage is provided to enrollees. Fixed administrative revenues are recognized in the period the services are provided. TennCare capitation revenues and receivables that are probable and estimatable are recognized as health insurance coverage is provided to enrollees. Modified risk arrangement revenues are recognized in the period in which UAHC-TN is notified thereof by TennCare.

In addition, the company uses the following accounting policies:

- (1) Cash and cash equivalents include cash and all highly liquid investments with an original maturity of three months or less when purchased and are carried at cost, which approximates market value.
- (2) The carrying values of cash and cash equivalents, receivables, and fixed maturities approximate fair values of these instruments.
- (3) Comprehensive income is the total of net income and all other non-ownership

## NOTES TO FINANCIAL STATEMENTS

changes in equity, as required by Financial Accounting Standard No. 130, Reporting Comprehensive Income.

- (4) The Company provides for medical claims incurred but not reported based primarily on past experience, together with current factors, using accepted actuarial methods. Estimates are adjusted as changes in these factors occur, and such adjustments are reported in the year of determination. Although considerable variability is inherent in such estimates, management believes that these reserves are adequate.
- (5) Fixed maturities are comprised of investments in certificates of deposit, federal agency debt securities, and U.S. Treasury notes carried at fair value, based upon published quotations of the underlying security, and six-month certificates of deposit, carried at cost plus interest earned, which approximates fair value. Fixed maturities placed in escrow to meet statutory funding requirements, although considered available for sale, are not reasonably expected to be used in the normal operating cycle of the Company and are classified as noncurrent. All other available-for-sale securities are classified as current.

Premiums and discounts are amortized or accreted, respectively, over the life of the related debt security as an adjustment to yield using the yield-to-maturity method. Interest income is recognized when earned. Realized gains and losses on investments are included in investment income and are derived using the specific identification method for determining the cost of securities sold; Unrealized gains and losses on fixed maturities are recorded as a separate component of stockholders' equity, net of deferred federal income taxes.

### 2. Accounting Changes and Corrections of Errors

A. Material Changes in Accounting Principles and/or Correction of Errors  
None.

B. Cumulative Effect of Changes in Accounting Principles as a Result of the Initial Implementation of Codification

The Company prepares its statutory financial statements in conformity with accounting practices prescribed or permitted by the State of Tennessee. Effective January 1, 2001, the State of Tennessee required that insurance companies domiciled in the State of Tennessee prepare their statutory basis financial statements in accordance with the NAIC Accounting Practices and Procedures Manual subject to any deviations prescribed or permitted by the State of Tennessee insurance commissioner.

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**NOTES TO FINANCIAL STATEMENTS**

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Accounting changes adopted to conform to the provision of the NAIC Accounting Practices and Procedures manual are reported as changes in accounting principles. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the year and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods..

3. **Business Combinations and Goodwill**  
None.

4. **Discontinued Operations**  
None.

5. **Investments**  
A. Mortgage Loans – None.  
B. Debt Restructuring – None.  
C. Reverse Mortgages – None.  
D. Loan-Backed Securities – None.  
E. Repurchase Agreements – None.

6. **Joint Ventures, Partnerships and Limited Liability Companies**  
None.

7. **Investment Income**  
Due and accrued income was excluded from surplus on the following basis:

All investment income due and accrued with amounts that are over 90 days past due with the exception of mortgage loans in default.

The total amount excluded was \$ 0.

8. **Derivative Instruments**  
None.

9. **Income Taxes**

## NOTES TO FINANCIAL STATEMENTS

A. The components of the net deferred tax asset (liability) at December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Total of all deferred tax assets (admitted and nonadmitted)	\$ 0	\$ 0
Total of all deferred tax liabilities	\$ 0	\$ 0
Total deferred tax assets nonadmitted in accordance with SSAP No. 10, Income Taxes	\$ 0	\$0
Increase (decrease) in deferred tax assets Nonadmitted	\$ 0	\$0

B. The components of income tax expense (benefit) for the years ended December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Current	\$ 369,275	\$ 492,992
Deferred	\$ 0	\$ 0
Total	\$ 369,275	\$ 492,992

C. Deferred income taxes arise primarily from net operating loss carry-forwards and unrealized investment holding gains. As of December 31, 2006, the company has utilized all of its net operating loss carry forwards for tax purposes.

**10. Information Concerning Parent, Subsidiaries and Affiliates**

At December 31, 2006, the Company reported \$0 as accounts receivable due from the Parent Company, United American of Tennessee, Inc.

The Parent Company, United American of Tennessee, Inc. has contracted with the Company to provide management services for their Medicaid HMO.

The Parent Company, United American of Tennessee, Inc. owns 100% of the Company's common stock and all of the Company's outstanding preferred stock.

**11. Debt**  
None.

**12. Retirement Plans, Deferred Compensation, Post employment Benefits and Compensated Absences and Other Postretirement Benefit Plans**  
None.

**13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations**  
The Company has 89,100,000 shares of common stock authorized with 8,000,000



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**NOTES TO FINANCIAL STATEMENTS**

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shares issued and outstanding. The stock has a par value of \$0.025. The Company has 12,550,000 shares of Series A preferred stock authorized, issued and outstanding. The stock has a par value of \$1.00 and is nonvoting, nonconvertible and non-dividend bearing. The stock has a liquidation preference of \$1.00 per share and is subject to redemption at any time by the Company at 110% of par value.

**14. Contingencies**

None.

**15. Leases**

The Company leases its facilities under an operating lease that expires in December 2010. The lease commenced in April 2005. Terms of the facility lease generally provide that the Company pay its pro rata share of all operating expenses including insurance, property taxes and maintenance. Rent Expense for the year ended December 31, 2006 and 2005 totaled \$475,777.34 and \$106,828 respectively. Based on the current lease agreement, the company estimates rent expense of approximately \$1,540,458 in aggregated or \$374,706, \$381,645, \$388,584, \$395,523, \$395,523 for years 2007 through 2011.

**16. Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk**

None.

**17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities**

None.

**18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans**

None.

**19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators**

None.

**20. September 11 Events**

None.

**21. Other Items**

- A. The Company and the Department of Finance and Administration of the State of Tennessee, Bureau of TennCare is party to an escrow agreement under which the Company has funded, on August 5, 2005, an escrow accounts held by TennCare At the State Treasury in the amount of \$2,300,000, is security for repayment to TennCare of any overpayments to UAHC-TN that may be

## NOTES TO FINANCIAL STATEMENTS

determined by a pending audit of all UAHC-TN process claims since 2002. The escrow bears interest at a rate no lower than the prevailing commercial interest rates for savings accounts at financial institutions in Nashville, Tennessee. The escrow account will terminate August 5, 2007 or sooner in certain events, except if litigation is pursued by either party, in which event the escrow account will continue until the end of litigation. All amounts (including interest earnings) credited to the escrow account will belong to the company, except to the extent, if any, they are paid to TennCare to satisfy amounts determined to be owed to TennCare as provided in the escrow agreement. The escrow agreement recites that TennCare does not at this time assert there has been any breach of UAHC-TN'S TennCare contract and that the Company has funded the escrow accounts as a show of goodwill and good faith in working with TennCare. The Company has recorded and recognized a liability of approximately \$320,000 related to the claims audit that hasn't been recouped from providers. The Company has deemed these dollars collectible and has also recorded a receivable for the same amount.

B. UAHC-TN has received notice from TennCare that it earned additional revenue of approximately \$0.2 million and \$0.2 million, respectively, for its performance under the modified risk arrangement for the third and fourth quarters of calendar year 2005. Such additional revenue has been recorded. UAHC-TN expects to similarly earn additional revenue of at least \$0.2 million for each quarter of calendar year 2006. The Company has not recorded such earnings as of December 31, 2006, and would record such earnings in calendar year 2007 only upon receipt of final notification thereof from TennCare.

C. On October 10, 2006, UAHC-TN entered into a contract with the Centers for Medicare & Medicaid Services (CMS) to act as a Medicare Advantage qualified organization. The contract authorizes UAHC-TN to serve members enrolled in both the Tennessee Medicaid and Medicare programs, commonly referred to as "dual-eligibles," specifically to offer a Special Needs Plan ("SNP") to its eligible members in Shelby County, Tennessee (including the City of Memphis), and to operate a Voluntary Medicare Prescription Drug Plan, both beginning January 1, 2007. The initial contract term is through December 31, 2007, after which the contract may be renewed for successive one-year periods in accordance with its terms. As of December 31, 2007, there were approximately 110 SNP enrollees in UAHC-TN.

**22. Events Subsequent**  
None

**23. Reinsurance**  
A. Ceded Reinsurance Report  
Section 1 -- General Interrogatories

## NOTES TO FINANCIAL STATEMENTS

- (1) Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly by the company or by any representative, officer, trustee, or director of the company? NO
- (2) Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business? NO

### Section 2 – Ceded Reinsurance Report – Part A

- (1) Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit? NO
- (2) Does the reporting entity have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies? NO

### Section 3 – Ceded Reinsurance Report – Part B

- (1) What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of payment or other similar credits that are reflected in Section 2 above) of termination of ALL reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate. \$0
- (2) Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement? NO

B. Uncollectible Reinsurance  
None.

C. Commutation of Ceded Reinsurance  
None

24. **Retrospectively Rated Contracts & Contracts Subject to Redetermination**  
None.

25. **Change in Incurred Claims and Claim Adjustment Expenses**  
There has been no change in the provision for incurred claim and claim adjustment expenses attributable to insured events of prior years.

## NOTES TO FINANCIAL STATEMENTS

26. **Intercompany Pooling Arrangements**  
None.

27. **Structured Settlements**  
None.

28. **Health Care Receivables**  
A. Pharmaceutical Rebate Receivables

Quarter	Rebates Per FS	Actual Rebates	Rec'd in 90 Days \$0	Rec'd 91 to 180 \$0	Rec'd More than 180 \$0
12/31/06	\$0	\$0			
09/30/06	\$0				
06/30/06	\$0				
03/31/06	\$0	\$0			

Quarter	Rebates Per FS	Actual Rebates	Rec'd in 90 Days \$	Rec'd 91 to 180 \$	Rec'd More than 180 \$
12/31/05	\$	\$			
09/30/05	\$				
06/30/05	\$				
03/31/05	\$2,611.66	\$2,611.66			

12/31/04	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
09/30/04	\$27,476				
06/30/04	\$19,467				
03/31/04	\$165,926				

- B. Risk Sharing Receivables  
None.

29. **Participating Policies**  
None.

30. **Premium Deficiency Reserves**  
None.

31. **Anticipated Salvage and Subrogation**  
None.

## SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	45,000	0.366	45,000	0.366
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies				
1.3 Foreign government (including Canada, excluding mortgage-backed securities)				
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations				
1.43 Revenue and assessment obligations				
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA				
1.512 Issued or guaranteed by FNMA and FHLMC	7,400,153	60.196	7,400,153	60.196
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA				
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other				
2. Other debt and other fixed income securities (excluding short term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO)				
2.2 Unaffiliated foreign securities				
2.3 Affiliated securities				
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated				
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated				
3.4 Other equity securities:				
3.41 Affiliated				
3.42 Unaffiliated				
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans				
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by company				
5.2 Property held for production of income (including \$ 0 of property acquired in satisfaction of debt)				
5.3 Property held for sale (including \$ 0 property acquired in satisfaction of debt)				
6. Contract loans				
7. Receivables for securities				
8. Cash, cash equivalents and short-term investments	1,822,987	14.829	1,822,987	14.829
9. Other invested assets	3,025,336	24.609	3,025,336	24.609
10. Total invested assets	12,293,476	100.000	12,293,476	100.000

## GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

## GENERAL

- 1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes [ X ] No [ ]

- 1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes [ X ] No [ ] N/A [ ]

- 1.3 State Regulating?

TENNESSEE

- 2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes [ ] No [ X ]

- 2.2 If yes, date of change:

04/30/2005

- 3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2004

- 3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

05/31/2006

- 3.4 By what department or departments?

- 4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11 sales of new business?

Yes [ ] No [ X ]

4.12 renewals?

Yes [ ] No [ X ]

- 4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21 sales of new business?

Yes [ ] No [ X ]

4.22 renewals?

Yes [ ] No [ X ]

- 5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes [ ] No [ X ]

- 5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

- 6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

- 6.2 If yes, give full information

- 7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes [ ] No [ X ]

- 7.2 If yes,

7.21 State the percentage of foreign control

0%

7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

1 Nationality	2 Type of Entity

- 8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes [ ] No [ X ]

- 8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

## GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

- 8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [X]
- 8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency (i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)) and identify the affiliate's primary federal regulator.

1	2	3	4	5	6	7
Affiliate Name	Location (City, State)	FRB	OCC	OTS	FDIC	SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?  
UHY LLP, Certified Public Accountants  
26200 American Drive, Suite 400, Southfield MI, 48034-6173
10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification? REDEN & ANDERS, LTD 222 South Ninth Street, Suite 1500, Minneapolis, MN 55402
- 11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [ ] No [X]
- 11.11 Name of real estate holding company \_\_\_\_\_
- 11.12 Number of parcels involved \_\_\_\_\_ 0
- 11.13 Total book/adjusted carrying value \$ \_\_\_\_\_ 0
- 11.2 If yes, provide explanation \_\_\_\_\_
12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 12.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity? \_\_\_\_\_
- 12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [X]
- 12.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [X]
- 12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [X] N/A [ ]

## BOARD OF DIRECTORS

13. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No [ ]
14. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No [ ]
15. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [X] No [ ]

## FINANCIAL

- 16.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 16.11 To directors or other officers \$N/A
- 16.12 To stockholders not officers \$N/A
- 16.13 Trustees, supreme or grand (Fraternal only) \$N/A
- 16.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 16.21 To directors or other officers \$N/A
- 16.22 To stockholders not officers \$N/A
- 16.23 Trustees, supreme or grand (Fraternal only) \$N/A
- 17.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [ ] No [X]
- 17.2 If yes, state the amount thereof at December 31 of the current year:
- 17.21 Rented from others \$N/A
- 17.22 Borrowed from others \$N/A
- 17.23 Leased from others \$N/A
- 17.24 Other \$N/A
- 18.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments? Yes [ ] No [X]
- 18.2 If answer is yes:
- 18.21 Amount paid as losses or risk adjustment \$N/A
- 18.22 Amount paid as expenses \$N/A
- 18.23 Other amounts paid \$N/A
- 19.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [ ] No [X]

## GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

19.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount:

\$N/A

## INVESTMENT

20.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E - Part 3 - Special Deposits?

Yes [X] No [ ]

20.2 If no, give full and complete information, relating thereto

21.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E - Part 3 - Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 17.1).

Yes [X] No [ ]

21.2 If yes, state the amount thereof at December 31 of the current year:

21.21	Loaned to others	\$N/A
21.22	Subject to repurchase agreements	\$N/A
21.23	Subject to reverse repurchase agreements	\$N/A
21.24	Subject to dollar repurchase agreements	\$N/A
21.25	Subject to reverse dollar repurchase agreements	\$N/A
21.26	Pledged as collateral	\$N/A
21.27	Placed under option agreements	\$N/A
21.28	Letter stock or securities restricted as to sale	\$N/A
21.29	Other	\$ 2,300,000

21.3 For category (21.28) provide the following:

1 Nature of Restriction	2 Description	3 Amount

22.1 Does the reporting entity have any hedging transactions reported on Schedule DB?

Yes [ ] No [X]

22.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?

Yes [ ] No [X] N/A [ ]

If no, attach a description with this statement.

23.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?

Yes [ ] No [X]

23.2 If yes, state the amount thereof at December 31 of the current year.

\$ 0

24. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping agreements of the NAIC Financial Condition Examiners Handbook?

Yes [ ] No [X]

24.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address

24.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

24.03 Have there been any changes, including name changes, in the custodian(s) identified in 24.01 during the current year?

Yes [ ] No [X]

24.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

24.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of brokers/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address



## GENERAL INTERROGATORIES

## PART 1 - COMMON INTERROGATORIES

- 25.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes ☐ No ☒
- 25.2 If yes, complete the following schedule:

1	2	3
CUSIP#	Name of Mutual Fund	Book/Adjusted Carrying Value
25.2999	Total	

- 25.3 For each mutual fund listed in the table above, complete the following schedule:

1	2	3	4
Name of Mutual Fund (from above table)	Name of Significant Holding of the Mutual Fund	Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	Date of Valuation

26. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1	2	3
	Statement (Admitted) Value	Fair Value	Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
26.1 Bonds			
26.2 Preferred stocks			
26.3 Totals			

- 26.4 Describe the sources or methods utilized in determining the fair values: .....
- .....

- 27.1 Have all the filing requirements of the Purposes and Procedures manual of the NAIC Securities Valuation Office been followed? Yes ☒ No ☐

- 27.2 If no, list exceptions: .....
- .....

## OTHER

- 28.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$ 0
- 28.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1	2
Name	Amount Paid
VESTICA	\$ 14,181,486
	\$
	\$

- 29.1 Amount of payments for legal expenses, if any? \$ 0
- 29.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1	2
Name	Amount Paid
	\$
	\$
	\$

- 30.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$ 0
- 30.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1	2
Name	Amount Paid
	\$
	\$
	\$
	\$